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Dec. 15, 1999 **LETTER 1293**

I'M GOING TO START this Letter a bit differently. As we close in on the millennium, I've been thinking of what an amazing 75 years I've lived through: growing up in Manhattan (1924 to 1961), the Great Depression, early radio, rushing out to see the latest Dick Tracy in the Sunday Daily News (price for the Sunday paper, a nickel), World War II, recessions, the birth of TV, the big bull market of 1942-46, the tough years of 1946-49 -- 1949 and I'm looking for a job while the world is waiting for the great post-war depression that never came. The mega-bull market of 1949 to '66, and I make my first real money in the stock market, marriage, kids, erratic markets of 1966 to '72 -- then (and I'm out) a crushing bear market lasting to late-1974. Next, the birth of the greatest bull market in history, the gold boom, and most recently the Internet and almost surely the whole world going wireless.

Of course, that's just the slimmest outline. The details would fill a few books. My first job with Postal Telegraph in 1941 making less than a dollar a day, my second job in Harlem loading trucks (1942) for $18.75 a week and half-days on Saturday. Sunday dinner with my family and four-course dinners for $1.00 at the Famefoods restaurant on 72nd Street off Broadway. Working on Worth Street (1950) and walking over to Chinatown for lunch every day -- lunch is sixty cents plus a dime tip. Frank Sinatra at the Paramount theater along with Tommy Dorsey's band, all for seventy-five cents before 12PM. Good white dress shirts at $1.25. Then the sixties with the rise of the youth culture, bye-bye to Eisenhower and McCarthy and the up-tight society, therapy groups, divorce, more kids, a heart attack.

1939, the Depression deepens, my dad has a breakdown, I'm sent on a Youth Hostel trip by bike -- all across Canada, Lake Louise, the Calgary Stampede, down the West Coast, Washington, Oregon, California, the Grapes of Wrath, unemployment, all the oranges or grapefruit you can pick for one buck, San Diego, the place I could never get out of my mind. Stopped by the police outside of LA. "You lookin' for work, kid? There ain't no work in California, and we don't want nobody coming into the state lookin' for jobs." "No sir, I'm just biking through on a site-seeing trip. I'm not looking for a job, honest." They let me go, with a warning and a wave of their night-sticks.

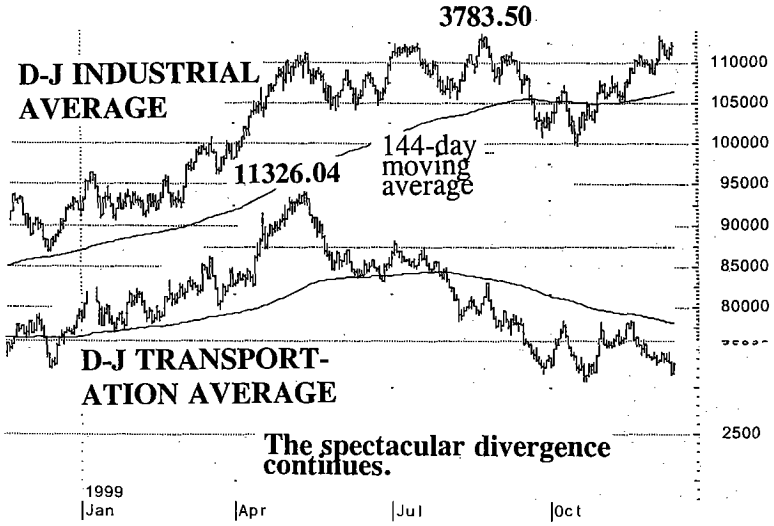
1942 and I'm out of prep high school, Horace Mann School for Boys (it's now co-ed). A year at Rutgers. World War II and I enlist. In the Army at age 18. First the infantry, then the Army Air Force, cadet school, gunnery school, Bombardier school, 12th Air Force and B-25s, combat, missions, sweating, praying, waiting for the war to end. Finally, VE-day, and orders to return to the States. B-25s have a limited range. So it's Italy, south to Africa, Tunisia, Ivory Coast, Ascension Island, Brazil, Costa Rica, Miami, NYC. Thirty days leave and orders for re-deployment to the Pacific -- switching to the new hot A-26 attack bomber. The atomic bomb, saved, VJ day, the war ends, I'm out in a month and registering at NYU. Combat vets sitting in class, learning from awed professors, graduating in '46 and wondering what to do. Girls, models, showgirls, cruising around NYC with my buddy, Air Force captain Al Robbins (where are you now Al?). I become fascinated with the stock market. But Wall Street is quiet, volume three million shares on a big day. I get married.

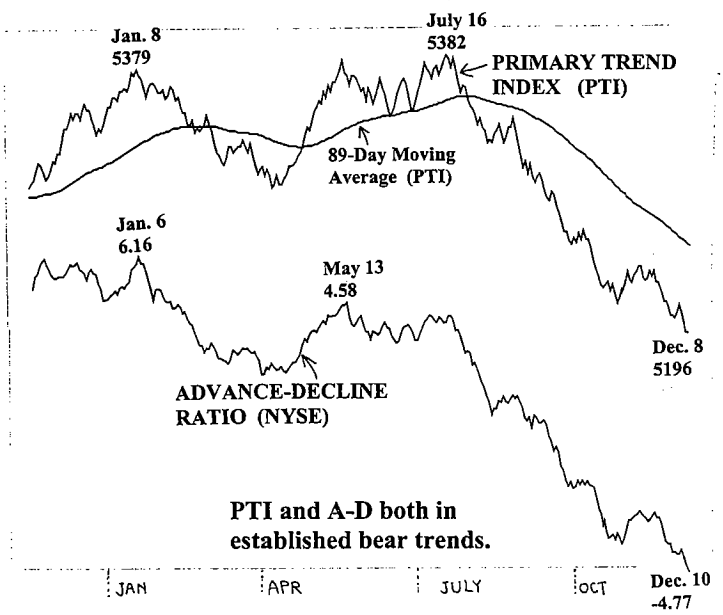
Dec. 3 DJIA 11286.12; PTI 5216; A-D Ratio -3.85
Dec. 10 DJIA 11224.91; PTI 5200; A-D Ratio -4.77
Dow Yield: 1.33%; Dow Price/Earnings: 24.3
Dow 144-day MA: 10645; Dow 34-day MA: 10915
Dow Times Book Value: 6.64; PTI 89-day exp. MA: 5257
Percentage of Undervalued Blue-chips: 9%
Gold 34-day MA: 291

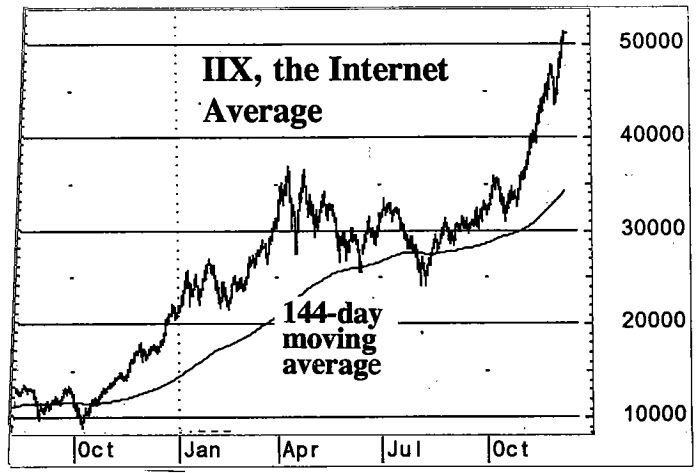
Two kids (I have five now), one of the two, a girl, autistic, it's too hard to take care of her in NYC. 1958 -- I start Dow Theory Letters, I'm dreaming of San Diego and no snow, no freezing cold. 1961 -- adios NY, I'm heading West. I turn over my apartment on 125 East 93 Street to a buddy. I'm paying $165 for a three bedroom apartment in a good East Side building. I should have kept it, but I didn't. Shoulda, shoulda, shoulda.

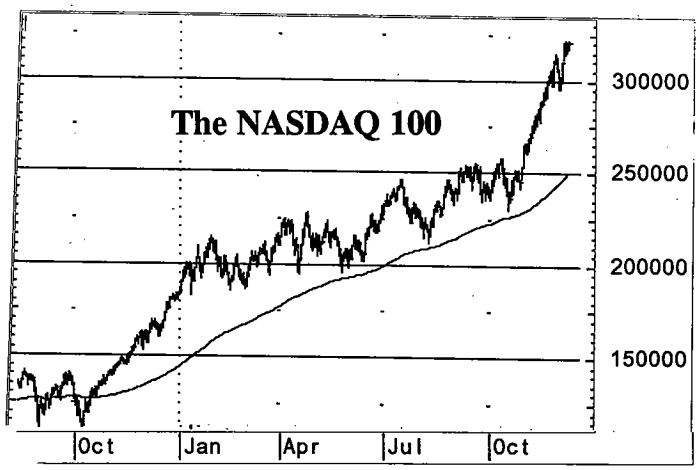
California in the 1960s. We start a commune. It's hip, crazy, exhausting. I'm living with 20 kids. Dope, confrontations, I'm still riding motorcycles (I started riding in 1946 and finally gave them up last year). My fascination with the stock market is intense. I'm obsessed with the market, always have been, always will be. Why? Maybe it was the trauma of the Depression, wondering what's coming up next, believing that the story is in the Averages.

And, well -- you get the idea. It's been a long voyage, and here I am at age 75 and still as enthusiastic as ever. I started writing a book about my life -- just for my kids. Should I publish it? Nah, as a friend who looked at the first 10 pages said, "Nobody would believe this -- your story lacks credibility." Maybe it does, but it's my story and I want my kids to know something about their ol' man.









Scars -- we're at a restaurant, wife Faye, a boomer, asks, "Why do you always order the cheapest thing on the menu?" I answer, "You know something, after all these years I still can't used to these damn prices." The bill comes and I slide it over to her to pay -- she's at home with these prices while I'm still thinking of four course dinners for a buck seventy-five. "Get into the '90s," Faye kids me. "Yeah, I'm trying," I answer, but I don't know if I ever will -- at least not all the way.

THE PICTURE: I've said this all along, ever since the Dow Theory bear signal of September 23, 1999 -- this bear market will begin with an **extended period of attrition.**

And so far, attrition is what we've seen in the great **majority** of stocks -- but the attrition has been masked by a phenomenon that I did not foresee. The phenomenon (I call it a mania) is the wild, almost hysterical buying of tech and Internet stocks.

Despite the intense speculation in nets and techs, the great mass of stocks has been persistently declining, eroding. From its April 3, 1998, high of 13.00, the advance-decline ratio has **lost over 17 points. That's an awful lot of lost points without an intervening correction.** For a comparison, even during the dreadful days of 1973 and 1974, the A-D ratio didn't go beyond 17 points of loss without some kind of upside correction. Yet so far, this time, the A-D ratio just keeps heading down. The breadth is beginning to be worse than in the years 1973 or '74!

What's really different about the action of the last 19 months is not just the divergence between the big averages and the majority of stocks, what's different is the wild and continuous speculation in the tech/nets in the face of the steadily declining breadth.

What we have in the IIX (Internet Average), the Nasdaq Composite, the Nasdaq 100, and even in the S&P, is a group of parabolic rises. I show charts of IIX and the Nasdaq 100 on page 2, and here you see that these advances have assumed almost vertical angles. History tells us that when a parabola finally tops out and turns down -- that's it, the move is over.

I've been pondering the current market situation -- and I'm referring to the collapse in breadth in the face of the bullish action in many of the big-cap stocks (big-cap stocks as exemplified by most of the D-J Industrial stocks). What does this "parting of the ways" really mean? It seems to me that the following is what the stock market is saying: "The big stocks are taking over the world. And big as they are, they are merging, consolidating, slowly crushing the life out of many smaller companies. The big stocks have the power to advertise, to finance growth internally, to go international, to research, to hire the best help, to buy supplies on a huge scale, to flourish even in an economy suffering from little or no pricing power." Meanwhile, the "average" company, meaning the great majority of companies, is struggling. It seems to me that we are dealing with a "Darwinian" situation, an evolutionary situation where it's simply the survival of the fittest, and the **fittest are also the biggest. And today the biggest (the fittest) have greater competitive advantages vs. the smaller companies than ever before.**

PTI: Let's look at some interesting and possibly significant comparisons. At its April 12, 1972 high, my Primary Trend Index stood at **1072.** Over the next few years, a vicious bear market hit Wall Street. By December 27, 1974, my PTI had dropped to **125** -- in all, a **huge bear market loss of 947 points.**

From its 1974 low, the PTI climbed steadily. By January 17, 1980 the PTI recorded a high of **1510.** From there the PTI corrected down to a very important low of **1226** on August 12, 1982.

From its 1982 low the PTI embarked on another advance, an advance that proved to be huge -- absolutely massive. By July 16, 1999, the PTI hit a record high of **5382.** From its 1982 low to its 1999 high the PTI has **risen by 4156 points.**

Many people believe (and I'm one of them) that the great bull market started in December 1974. If true, that would mean that the PTI has risen from 125 in December 1974 to 5382 in July 1999 -- a giant rise of 5257 PTI points.

But let's be conservative. Let's say the bull market started later, not in 1974 but in August of 1982 -- with the PTI at 1226. That would still mean a huge rise in the PTI of 4156 points.

Summing up, from the 1982 low (on the PTI) to the July 1999 high, we have added 4156 PTI points -- **4156 points that have never been corrected.**

Here's what's got me wondering. On July 29 the PTI turned bearish when it broke below its 89-day moving average. Two months later, on September 23, the Dow broke below its preceding low, thereby confirming the prior break of the Transports. This was a Dow Theory bear signal.

On the basis of the action of both my PTI and the D-J Averages, I stated that "we are now in a primary bear market." Now suppose the bear market is fated to correct say one-third of its 1982 to 1999 advance in the PTI. That would call for a decline in the PTI to 2771 -- or a loss of 1385 PTI points.

OK, how much has the PTI lost so far from its 1999 high of 5382? **So far the PTI has lost 178 points.** And remember, just a one-third correction on the PTI would amount to a loss of 1385 points.

All the above, of course, is just speculation, items I've been thinking about but have never written about.

Question: Russell, neither you nor anyone else knows whether the stuff you've written about above can or will come to pass. But let's just say that we're on the edge of a huge bear market. What conditions could possibly be behind that kind of bear market?

Answer: Ah, more speculation and theories. But here goes. If we do enter a major bear market I think the force behind it will be global deflation. I think the Internet is a force for deflation; I've said from the beginning that the Internet, by its nature, is hostile to profits.

Furthermore, we know that the whole world outside the US is now increasing production, turning out more and more goods. On top of that, we have the World Trade Organization, whose agenda may or may not come to pass, but either way the future is clear -- the future is expanding world commerce and with it rising world competition.

Finally, we have US consumers heavily in debt, very low on savings and up to their necks in stocks. In my opinion, all the above offer plenty of ammunition for an historic bear market. Of course, there's that little matter of timing. I've been thinking that the major trouble would begin in January. But how about trouble in December? Wouldn't that be a surprise (nobody expects trouble in December, the month that seldom sees a decline)?

Item: On December 7, the D-J Utility Average hit a new bear market low. Is the Utility Average, often a bellwether with a lead time, telling us something?

INVESTMENT POSITION: I should really have two animals in the box, a bear for the great majority of stocks and a bull for the nets and techs. As a matter of fact, and I've never done this before, that's just what I'll do. But the bull is a lot smaller than the bear, because there are a lot **fewer** stocks in bull trends.

What to do here? If you prefer values, you're collecting interest in T-notes or even T-bills, although top-grade munis now offer outstanding value. If you're a crap-shooter and you want to participate in the Internet festivities, the easiest way to go is simply to buy HHH, which is a Merrill sponsored group of 20 selected net stocks. HHH is traded on the Amex. It trades the same way Diamonds (a Dow proxy) or Spyders (an S&P proxy) trade on the Amex. I prefer the index funds to mutual funds. No tax intricacies, just a simple call on the underlying stocks.

Am I buying HHH or Diamonds or Spyders? No, because I'm just an old conservative who likes INCOME. If an item doesn't pay a dividend or interest, it's a speculation, not an investment. All my life I've only put my money on investments. I like to buy income. In fact, the honest truth -- I really like income.

NOTES & QUOTES: Caroline Baum is, in my opinion, one of the smartest and best observers of the economy and the money markets (she's a regular columnist for Bloomberg). This is from her recent column: "US money supply growth is accelerating. The broadest monetary aggregate, M-3, rose an annualized 10.8% in October from the prior month, the largest increase since December, 1998. For the month of November to date, M-3 is up an annualized 11.7% vs. the October average. Bond traders, spurred no doubt by a report from a Washington consultant, are talking about the possibility that the Fed will have to raise interest rates again before the end of the year. The idea of a January inter-meeting move is getting some play. If not, it will be 50 basis points for sure in February."

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Berkshire Hathaway is down 20% this year. As one observer put it, "If Warren Buffett was a fund manager, he'd be fired." Is Buffett worried? I sincerely doubt it. Buffett lives conservatively in the same house he bought back in the '50s. He lives simply -- and far away from Wall Street. I don't think Buffett is caught up in the current craze to get rich quick and beat the world. Which is probably why in every photo I've seen of Buffett he's smiling.

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One thing most knowledgeable analysts agree on is that the new world of technology will be **wireless.** Everywhere you look it's wireless, from the new digital phones that surf the web (think Ericsson and Nokia) to the DSL (digital subscriber line) house envisioned by the engineers at 3Com. In view of this, I find myself wondering why corporations

are still spending billions of dollars on cable. Am I missing something? I guess I must be. I'll tell you this -- I've had a satellite dish for a couple of years, and I can tell you that watching TV via the satellite has been a pleasure.

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I look at the special e-commerce sections of the *NY Times* and the *WSJ* and I just shake my head. How can all these companies, large, medium and small, expect to prosper selling their wares on the web? I can't even remember most of their names. And now the foreign companies are starting to come in on the web. For instance, Britain's great department store, Harrod's, has a fine website. What happens when the Indians and Chinese hit the web with their merchandise at outlandishly low prices? Web commerce is going to be so competitive you won't believe it. Well, yes, you will believe it -- and talk about pricing competition, I don't think we've seen anything yet.

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I see that well-known analyst, Ed Yardeni, chief economist at Deutsche Bank, has softened his stand on Y2K. Yardeni was the leader in warning that Y2K could be a disaster, a disaster that could send the stock market hurdling to the lower depths. Now Yardeni believes that Y2K will be manageable. He said that he has "been spending too much time this year worrying about what could go wrong. Instead, everything has gone very right." Furthermore, he feels that within five years the Dow could be up at 36,000. **Russell Comment:** In the 45 years in which I've studied market action, I've learned one thing. Anybody in this business can be wrong about almost anything. For that reason, when I hear a well-known "name" analyst put forth his views, I always take those views with a grain, or really with a handful, of salt. One of my observations is this: "Watch the highly successful analyst who has been correct for years -- he's drawing ever-closer to the time when he'll be dead wrong. Conversely, watch the previously successful analyst who has been wrong for years, for he's drawing ever-closer to being right." And yes, this applies to both sexes, he or she.

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Honest, I like Donald Trump, but no, I won't vote for him. His conversations are so outrageous that I just have to like him. In a recent interview, Donald asked why it is such an advantage for politicians to boast that they come from "three generations of ancestors in poverty." Why is poverty such an advantage, asks Trump, after three generations, if the family can't get out of poverty, there's something wrong with them. Adds Donald, I make lots of money, and that's an indication of brains and know-how. Poverty, I wouldn't boast about it. Then he went into another path. He said he's known men who were worth millions and who couldn't get a date with a girl rated a 5. Yet, said Trump, I get all the 10s I want. Trump related how one millionaire asked Trump to fix him up with a pretty girl. Trump obliged. The next day the girl called Trump and said, "If you ever fix me up with a creep like that I'll kill you." That afternoon the same fellow called Trump and said, "Donald, that girl was terrific. I can't wait to call her for another date." And the latest; Trump says that if he definitely decides to run he'll spend $100 million. Go Donald.

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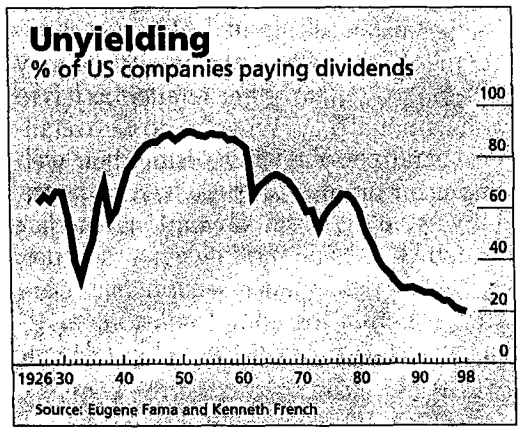
This chart is worth studying (from the *Economist)*. It shows that only one out of five US corporations now pay a dividend. I view this trend as ominous. You can get away with it in a bull market, but in a bear market it becomes a major problem. Stocks that decline, and at the same time provide no income, are simply a liability. Case: You own a stock selling at 60 and it pays no dividend, never has. The stock climbs to 95 in a bull market and you're happy -- and who needs dividends? Then a bear market comes in and the stock starts to decline. First 90, then 87, then 80, 75, 60, 55, 47, hey you're under water. Worse, you never got anything out of the stock, no dividends, no return, nothing, and now you're losing money on the damn thing. You've held the stock for nine years, and what have you got to show for those nine nears? Easy, what you've got to show is a loss.



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A few weeks ago I talked (on the net) about my wife and her brother celebrating his 40th birthday in Paris. I was invited to the Paris celebration but said that I might pass. The next day I got about 25 e-mails telling me that I was nuts not to go. A typical example: "My dad was in the service during WWII and saw the world as you did. He too avoided travel with mom when they could have. She finally convinced him to take a trip to Hawaii and they had a ball and made repeated trips. Go to Paris, you old grouch, while you still feel good enough to do it." **Russell Comment:** Gad, I can't seem to get away with a thing. Mercy, mercy, subscribers, mercy.

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Dollar: The dollar is weak against the yen, while the euro is weak against the dollar. Are currencies at par? It's almost a reality. But as world economies improve they will draw investments away from the US. If this continues, the US trade deficit is going to sail off into space. It's the US trade deficit that frightens foreign investors. At some point foreigners will demand a higher return if they are to hold dollars. The higher return will come from higher interest rates.

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I might have been a touch hard on the medical fraternity for ignoring or even denouncing chelation. In the spirit of the new millennium, I'm taking this opportunity to say, "I'm sorry." But I'll add, you stubborn old fuddy duddies, stop following the AMA line and investigate chelation for yourself. But the fact is that medicine has made amazing progress, certainly since I was a boy -- and that was before antibiotics. How about the following; it's from the latest issue of *American Heritage* magazine (published by *Forbes)*. On page 99, there's a description of George Washington's last days on earth and his treatment. After being out in the rain, Washington developed a sore throat. "As the night wore on, however, Washington's throat condition became serious. He tried to dose himself with a mixture of vinegar, molasses and butter but could not get it down. Shortly before dawn he called for George Rawlins, an overseer who sometimes treated Washington's livestock

and slaves. Rawlins drew about three-quarters of a pint of blood. Further help was summoned in the morning. The first doctor to arrive was James Craik, a close friend of Washington. . . . According to his own account, Craik tried 'two copious bleedings,' a cantharides blister, two doses of calomel, and an unspecified 'injection,' which 'operated on the lower intestines.' Washington, who was probably suffering from tonsillitis or diptheria, continued to breathe with great difficulty. He tried to gargle with vinegar and sage tea but abandoned the effort after nearly choking. Two more physicians arrived that afternoon, and in true eighteenth century fashion, the trio of doctors proved three times as lethal as a single one. They bled Washington yet again, this time removing a full quart. Vinegar, the all-purpose remedy, was inhaled as a vapor mixed with steam. . . . With the patient's life slipping away, the desperate physicians applied another set of blisters as well as a 'cataplasm' made of bran and the inevitable vinegar to his throat. Washington died about an hour before midnight." **Russell Comment:** No question about it, medicine has come a long way.

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Facts: The **American family** is changing drastically. In 1972, 45% of US households contained a married couple with children. That count is now down to 25%. In 1972 childless non-married couples constituted only 16% of households. Today that figure has risen to 32%. In other words, one-third of households now contain couples living together with no children. Half of US births are now to unwed mothers. . . . There are 350 publicly traded **biotech companies.** How many are profitable? The answer: Only 14. . . . **Y2K** -- banks are generally considered compliant, but the Fed has set up a "special liquidity facility" to give banks loans in case of a sudden demand for cash. Health care -- many hospitals are not compliant. Military -- does not anticipate any major problems. Phones are expected to be OK with no interruptions. Public Safety -- most 911 emergency systems should be ready. Schools -- 40% are not supposed to be compliant. Supplies -- experts say that stockpiling is not necessary although small local stores may run short. Power around the world is not expected to suffer any serious disruptions. Potential trouble spots: Africa, China, Eastern Europe, Russia, Venezuela. . . . . Fastest-growing Western US cities: Phoenix, San Antonio, San Diego, Houston, Dallas.

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Men's Fitness magazine voted San Diego the "fittest city" in the nation. Says the mag, "Its climate and geography make it a great place for fitness. There aren't many places where in January you can go running on the beach before breakfast and be up at 10,000 feet skiing before lunch." Second fittest, Minneapolis, then Seattle, Washington, San Francisco. **Fattest Cities** were Philadelphia, Kansas City, Houston, Indianapolis, New Orleans.

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An interesting e-mail from subscriber Eugene B., and I thank you Eugene. "Dick, computers 1968; nifty-fifty 1972; oils 1980; Japan 1989; emerging markets 1991; biotechs 1993 -- what do they all have in common? All topped out in December (I might have the years wrong but not the months)."

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Does character count? How about this, which a subscriber has labeled, "The Best Congress Money Can Buy." The following are based on public records prior to the 1999 summer break. Nine members of Congress have been accused of spousal abuse. Seven have been arrested for fraud. Nineteen have been accused of writing bad checks. One hundred and seventeen have bankrupted at least two businesses. Three have been arrested for assault. Seventy-one have credit reports so bad they can't qualify for a credit card. Fourteen have been arrested on drug-related charges. Eight have been arrested for shoplifting. Twenty-one are current defendants in lawsuits, but were released after they claimed Congressional immunity.

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Comment: I have a great many older subscribers, men and women over, let's say, the age of 60. These people grew up dealing with a different kind of market, it was a market where dividends and "sane" price/earnings ratios were important. As a matter of fact, my really old subscribers remember when a blue-chip stock was considered worth looking at only if it sold at 10 times earnings with a dividend of 5% and preferably 6% (ah, those good old days, where are they?).

The point I'm trying to make is this: there can be an advantage and a disadvantage in having lived through the "good old days" when stocks were statistically a lot "cheaper" and the word "value" had a lot more meaning. **The advantage is this** -- old timers remember only too well what it was like to buy an Exxon or a DuPont at 10 times earnings while receiving a fat dividend yield. That gave the old timers a **perspective** in investing that the "new kids on the block" just don't have. And when the inevitable bear market arrives, the new kids are probably going to lose their shirts, because they simply have had no experience with bear markets -- in fact, they don't even believe in bear markets.

The **disadvantage** is this -- old timers are prejudiced against today's market. They think it's crazy, it's too high, it's a bubble, and they absolutely don't trust it. Literally, no matter what it does, they don't trust it.

That's a wrong attitude. The correct attitude in this business is to be non-emotional, non-judgmental about the market. The market can do anything, it can double, it can drop in half. The best stance towards the market is to watch it, monitor it, try to draw unprejudiced conclusions about what it's doing and what it may do. And what you should do about it.

I really try to do that. It isn't a question of "liking" or "disliking" the market. You may think the market is too high or too low or just right. That should not be an emotional decision; rightfully, it should be an analytic judgment. If I think the market is heading higher, I must decide whether to buy stocks or I may choose to just watch it. If I think the market is going down I have to decide whether to get out of all stocks, whether to stay with a few, or whether to put out a few shorts. But I try mightily to leave out whether I "like" the market or not. The market is not something I want to like or dislike. It's just a market, and it's the only one we've got. Don't love it, don't hate it, just deal with it on a rational, unemotional basis.

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Internet: Mary Meeker is the queen-analyst of the Internet. She works for Morgan Stanley and is reputed to be receiving at least a $15 million bonus this year. I just read her write-up on "hot stock" Akamai Technologies. The write-up is glowing and she gives the stock a target price of $225 (written Nov. 22); actually the price last week was $224. The report states that the company "has close to 1,500 servers in its network currently, and should have

nearly 5,000 by year-end 2000. This puts it in a favorable position to distribute and maintain content and application processing close to the end-user. We believe that no other company has the reach and depth offered by the Akamai network." **Russell Comment:** Obviously this is a fine company. The report gives the company a loss of $1.04 this year and only 0.99 next year. So what's it worth? With no earnings, there can be no price/earnings ratio and obviously no yield. Is there danger in buying this stock? My answer is yes. It's clear that this is a fine company, but the big question is how to value it. With no earnings you have to go by its revenues and its future. The problem that I see is market sentiment. Suppose the bear market starts changing the current bullish sentiment to a neutral sentiment and then, god forbid, a bearish sentiment. And instead of valuing good Internet stocks at 100 or 200 times revenues, the market decides that these companies are only worth 10 to 15 times revenues, and even less if they are not generating any profits. If that happens, you could see a huge across-the-board collapse in the Internet stocks. And just as ironic, you would hear new reports and analyses showing why the whole net universe is unbelievably competitive, why foreign competition is bearish, why the scope of the Internet has been exaggerated, etc, etc. Finally, it would be generally conceded that although the Internet is fabulous, it was also in the grip of "mania buying." Could all this happen? Don't bet against it.

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"A tiny company with dim prospects goes public with a bang." That's the way the Dec. 10 *NY Times* described the IPO entrance of little VA Linux Systems, a stock that set an absurd record for an IPO. Wrote the *Times,* "Internet mania reached new levels of frenzy today as investors paid huge multiples on an IPO, giving a market value of almost $10 billion to a tiny company with powerful competitors, little revenue and no expectations of earnings in the foreseeable future. Said Michael Perkins, co-author of the 'The Internet Bubble,' 'A stock like this is an obvious example of something going through the roof with absolutely no underlying fundamentals. It starts with the institutions flipping the stock, and then the momentum players and the day traders take over. Just when you think you've seen the peak of insanity, this is a perfect bubble stock.'" **Russell Comment:** For fiscal 1999, VA Linux's total revenues were $17.7 million. And the market gives this stock a value of almost $10 billion? What's the word for "beyond insanity"?

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Salton, Inc., a maker of housewares, signed a contract last week with former boxer George Foreman worth $137.5 million in cash and stock. The company said it would give Foreman and two partners shares of Salton worth $23.5 million plus five annual cash payments of $22.75 million. **Russell Comment:** Great for George, potentially disastrous for Salton, Inc. And the good times keep rolling along.

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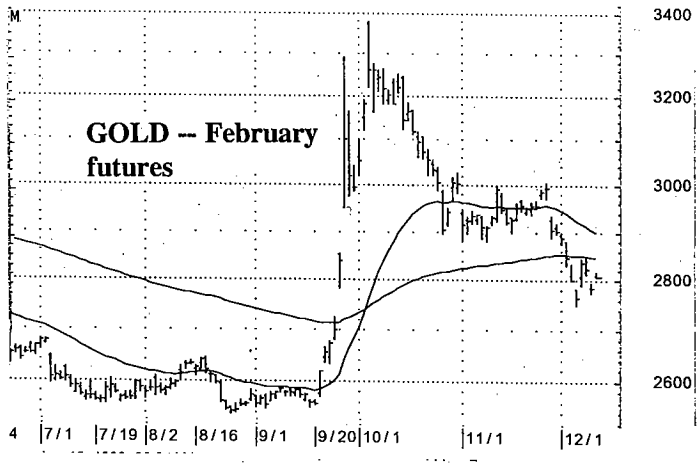
GOLD: The active contract is now February. Looking at the chart of Feb. gold we see the 34-day moving average declining sharply but still **above** the 144-day MA, and this is a plus. Gold itself is negative. But note the recent gap to a low of 276.50, then a gap up, leaving a little "island reversal." That 276.50 could have been THE low. To turn bullish? Simple, Feb. gold would now have to climb above its 34-day MA, which stands at 292. That's the story of gold, pure and simple. Should Feb. gold rise above 292, I would expect the gold stocks to firm considerably.

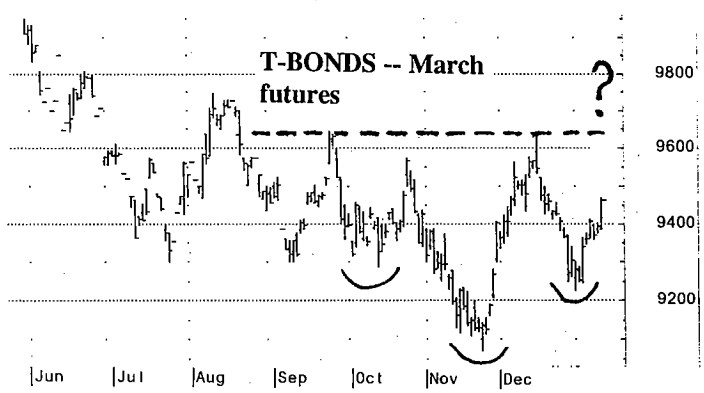


LATE NOTES: There's obvious worry about Y2K -- for this reason cash has been building up in mutual funds, $37 billion in October alone. With that in mind, some analysts are predicting that Y2K will be a non-event. When investors realize this, there will be a "melt-up" with stocks surging in January as people and funds rush to reinvest. The other thesis is that informed investors now "know" that Y2K will be a non-event and they have been buying in advance of the news. When it is seen that Y2K is no big problem, these sophisticated investors will sell on the "good news." Which camp is correct? That's the multi-billion dollar question.

I tend to favor the second scenario -- in other words investors are currently buying on the expectation of Y2K being a "non-event," and they will SELL on the news. Nevertheless, I'll be guided by market action and my PTI, not by my scenario.

In the meantime (and I've talked about this many times), the Fed has rocketed the monetary base up at the phenomenal rate of around 20%. The monetary base consists of currency in circulation and bank reserves, both of which are controlled by the Fed.

IS THIS POSSIBLE? This is a chart of the March T-bond futures. What we see here is a potential "head-and-shoulders" bottom. With the money supply booming, with business surging, with everything suggesting lower bonds and higher yields, how could the bonds break out to the upside? My only answer (and this jibes with the declining market breadth and the bearish Transports) is that the bonds are discounting a business slow-down next year. But wait, to "break out" to the upside and turn clearly bullish, the March bonds would have to rally above 96 ½. Can they do it? We should know shortly. Until they do, however, the trend of bonds is questionable.



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